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1.3 Executive Summary

Nkandla municipality's preparation of its Annual Financial Statements, budget and financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities. Due to the fact that the municipality is a small rural municipality which have only few sources of revenue, grants being the main source, the main focus was undertaken on expenditure review to eliminate noncore and nice-to-have items. This has resulted in savings to the municipality that will be used to fund other operations of the municipality in its 2013/14 Annual Budget and MTREF. Key areas where savings were realized were on Subsistence & Travelling, Entertainment, Printing & Stationery, number of workshops, accommodation, and Consultant fees. The municipality has established the Traffic Management Unit as the first step in, but not limited to, enhancing self generated revenue. Furthermore, the municipality continues to undertake various public participation initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.
National Treasury's MFMA Circular No. 66 and 67 were used to guide the compilation of the 2013/14 MTREF.

The main challenges experienced during the compilation of the 2013/14 MTREF can be summarised as follows:

- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- The need to fill critical vacancies and availability of revenue sources to fund those positions;
- Implementation of future dated capital projects, which results in under-spending or shortage of funds in excess of MIG allocation, that eventually affects our equitable share (that is mainly used to fund the entire operations of the municipality)

The following budget principles and guidelines directly informed the compilation of the 2013/14 MTREF:

- The 2012/13 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2013/14 annual budget;

- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, e.g. the cost of bulk electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the above-mentioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2013/14 MTREF BUDGET

	ADJUSTED BUDGET 2012/13	BUDGET YEAR 2013/14	BUDGET YEAR 2014/15	BUDGET YEAR 2015/16
Total Operating Revenue	102 357 971.00	133 877 000.00	147 333 383.00	192 701 038.00
Total Operating Expenditure	86 122 631.00	131 133 745.00	138 583 082.00	169 789 434.00
Surplus/Deficit	**16 235 340.00**	**2 743 499.00**	**8 750 302.00**	**22 911 604**

Total operating revenue has grown by 23.4 per cent for the 2013/14 financial year when compared to the 2012/13 Adjusted Budget. Total operating expenditure for the 2013/14 financial year has been appropriated at less value compared to revenue and translates into a R2.7million Surplus/Deficit for 2013/14 budget year while R8.7 and 22.9 million Surplus is expected for the two respective forecast years . When compared to the 2012/13 Approved Budget, operational expenditure has grown by 34.3 per cent in the 2013/14 budget and by 5.4 and 5.4 per cent for each of the respective outer years of the MTREF.

The capital budget of R41,08 million for 2013/14 is a 58.4 per cent when compared to the 2012/13 Adjustment Budget. The escalation is due to electrification projects to be initiated in the forthcoming financial year as well as the budgeted individual budgeted values for new capital projects. All our capital projects will be funded from Municipal Infrastructure Grant and Electrification Grant over MTREF.

MAYORAL REPORT

2013/14 MUNICIPAL BUDGET

All municipal operations are dependant and reliant on the budget to ensure that they materialize. The IDP and Budget are core documents to our vision and dreams as citizens of Nkandla, for without a financial backup and development plan, there can never be any successes in delivering on that which we have promised our citizens.

In complying with the legislative requirements embodying municipal finance management and public administration, The Municipal Budget for 2013/2014 financial year and the forecasting of the two consecutive future years has been prepared in accordance with Chapter 4, Section 16 of the Municipal Finance Management Act which states that the Council of the Municipality must;

1) *For each financial year approve an Annual Budget for the Municipality, before the start of that financial year;*
2) *In order for the Municipality to comply with subsection 1), the Mayor of the Council must take the Annual budget, at a Council Meeting atleast 90 days before the start of a Budget Year.*

This Municipal budget has been prepared in accordance with the Municipal Integrated Development Plan, the available financial resources and projections for the year. While this municipality has a poor rates base and is largely impoverished and unemployment is endemic, this municipality has a massive responsibility of delivering basic services to all and ensuring that the quality of life of Nkandla citizens improves.

The Municipal Budget is divided into two categories i.e. the Capital & Operating budget as per the requirements of the legislation governing municipal finance.

In its budget preparation, the Municipality was realistic of its unfortunate circumstances of having a minimal rates base which impacts on the Municipal Own revenue, and renders the municipality largely dependent on national and provincial grants. We are however, have instigated the implementation of Municipal Property rates Act, which includes the review of the Municipal Valuation Roll and the implementation of rates and taxes in the taxable/ rateable properties as per the prescripts of the legislation. Our municipality is still deemed as lagging behind in the enhancement of revenue, which is why we are reviewing our revenue enhancement strategies, because the lack of a rates base means if the grants and the DORA allocations stop, the municipality will seize to exist.

Due to the fact that the municipality is a small rural municipality which have only few sources of revenue, grants being the main source, the main focus was undertaken on expenditure review to eliminate noncore and nice-to-have items. This has resulted in savings to the municipality that will be used to fund other operations of the municipality in its 2013/14 Draft Budget. Key areas where savings were realized were on Subsistence & Travelling, Entertainment, Printing & Stationery, number of workshops, accommodation, and Consultant fees.

BUDGET BREAK DOWN:

TOTAL BUDGET:

The total budget for 2013/14 is R133 877 000 which includes our projected Capital and Operational Expenditure. Which constituted by the following sources of income:

Operational Grants:	R 63 127 000.00
Capital Grants:	R 41 081 000.00
Total Grants:	R104 208 000.00

Services which include Electricity & Refuse	R 12 961 000.00
Rates:	R 5 000 000.00
Other income (based on tariffs from Municipal Properties):	R 11 708 000.00
Total Internally Generated Income	R 29 669 000.00

CAPITAL BUDGET

No capital projects will be implemented based on the Municipal Own revenue; our Capital Projects are funded by the Municipal Infrastructure Grant.

The projects that we are to implement in 2013/14 financial year are as follows:

- EsiBhudeni Community Hall & Creche Facilities (Ward 7) R3 029 207.50
- Thalaneni Community Hall & Creche Facility (Ward 4) R3 029 208.50
- Thaleni to Malunga Gravel Road Rehab. (Ward 3) R3 211 050.00
- Nsuze/Ngomankulu Pedestrian Bridge (Ward 14) R9 386 130.18
- Mashushu Link Road Rehab (Ward 11) R1 185 458.82
- Bangamanzi Mfongosi link Gravel Road Rehab (Ward 6 & 9) R3 046 946.00

Our total operating expenditure budget is R 90 052 745

Local Economic Development R 1 120 000.00

This goes towards creating a conducive environment for our emerging entrepreneurs by skills development, information sharing and start up funds. The following programmes are catered for in our operating budget for the benefit of the relevant stakeholders:

Youth Development Program	R 650 000.00
Women empowerment	R 280 000.00
Early Childhood Development	R 250 000.00
Sports & Recreation	R 750 000.00
Library	R 425 000.00
HIV/AIDS	R 300 000.00
Disaster Management	R1 630 000.00
Cultural Development	R 600 000.00

Disability	R 400 000.00
Senior Citizens	R 100 000.00
Communication & Publications	R 750 000.00

Our repairs and maintenance which will fund the routine maintenance of municipal structures and facilities as well as other capital assets is :

R 3 859 000.00

TARIFFS

The inflation rate of 5.6% will apply to all municipal tariffs (based on the current CPI as gazetted by National Treasury : Circular 67). This includes some of the following:

Property Rates

Service Charges

Permits

Hiring of Municipal Facilities etc

The main challenges experienced during the compilation of the 2013/14 Budget & IDP can be summarised as follows:

- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;

- ❖ The need to fill critical vacancies and availability of revenue sources to fund those positions;
- ❖ Implementation of future dated capital projects, which results in under-spending or shortage of funds in excess of MIG allocation, that eventually affects our equitable share (that is mainly used to fund the entire operations of the municipality)

During 2012/2013 Financial year, the municipality has established a traffic unit with the intention of not only implementing traffic control measures in the Municipal Roads but as one of the key strategies to enhance own revenue. Although the unit could not commence its intended purpose due to certain inevitable drawbacks and other challenges (financial and operational), but I can firmly stand before this council and assure all members that the undergoing processes testifies the possibility of the unit commencing its operations during 2013/2014 financial year.

The revenue enhancement strategy that is currently being devised will assist the municipality in developing new revenue enhancement mechanisms and also minimising the volume of distribution losses with regards to electricity.

This is a beginning of other comprehensive measures that the municipality is to implement to ensure that by the end of term of the existing Council we can confidently say we have created revenue that can sustain the municipality if grants were taken away.

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03 APRIL 2013

NMC: 61
APPROVAL OF THE MEDIUM TERM REVENUE EXPENDITURE FRAMEWORK DRAFT BUDGET FOR THE FINANCIAL YEAR 2013/14 AND ALLOCATIONS FOR THE TWO OUTER YEARS 2014/15 AND 2015/16

Report by the Chief Financial Officer dated 27 March 2013 – Ref: 24/4/11/1 (NMC: 61)
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The Municipal Finance Management Act No. 56 of 2003, Chapter 4

16. Annual Budgets

(1) The Council of a Municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.

(2) In order for a municipality to comply with subsection (1) the Mayor of the Municipality must table the annual budget at Council meeting at least 90 days before the start of the budget year.

The Mayor tabled the 2013/14 Draft Budget for the Council.

Councillor BZ Mncadi-Mpanza proposed that the 2013/14 Draft Budget be approved and was seconded by Councillor SO Sibiya.

It was thereafter

RESOLVED

That the 2013/14 Draft Budget be approved.

MUNICIPAL MANAGER
ME NGONYAMA

09/04/2013
DATE

Municipal Manager's quality certificate

I Mgezeni Enock Ngonyama...., Municipal Manager of Nkandla Local Municipality, hereby certify that the Draft budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and Regulations made under the Act, and that the approved budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name Mgezeni Enock Ngonyama

Municipal Manager of Nkandla Local Municipality (KZN286)

Signature

Date 09/04/2013

OVERVIEW OF BUDGET ASSUMPTIONS

General inflation outlook and its impact on the municipal activities

There is a number of key factors that have been taken into consideration in the compilation of the 2013/14 MTREF and Annual Budget:

- National Government macro economic targets;
- The general inflationary outlook and the impact on municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity
- Increase in Employee related costs.

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher that CPI over the forecast period. It is therefore assumed that 5.6%, 5.4% and 5.4% of inflation rates will impact our budget forecast. (in terms of Budget Circular 67)

Salary increases

The Treasury decision regarding provision for salaries/wages increase that should come into operation in July 2013 was 6.85%.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs – The programmes such as Indalo Yethu Project played a major role in aligning the municipal objectives with the National Government ones during 2012/2013 financial year, this being one of them. This programme offered a significant percentage of employment to Nkandla citizens. After the expiration of the Indalo Yethu Term, the municipality opted to extend the provision of such services with the assistance of EPWP Grant.

- Enhancing education and skill development – Local Economic Development and Skills Development Centres were effected to serve this purpose
- Rural development and agriculture – The municipality is currently conducting Local Economic Development Programmes in order to support this objective.
- Fighting crime and corruption.

To achieve these priorities, the above-mentioned integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus is and will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

OVERVIEW OF BUDGET RELATED-POLICIES

The municipality's budgeting process is guided and governed by relevant legislation, strategies and related policies.

Credit Control and Debt Collection Policy

The credit control and debt collection policy is attached, and it serves as a guideline in the budget planning processes. The indigent policy exist in favour of this policy in order to assure transparency in the all processes involved in the preparation of 2013/14 Annual Budget and MTREF and to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors, as most of the indigents within the municipal area are unable to pay for municipal services.

The 2013/14 MTREF has been prepared on the basis of achieving an average debtors' collection rate.

Fixed Asset Management Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure is to be considered as a significant strategy in ensuring the future sustainability of infrastructure. The need for asset renewal is still under consideration.

The Fixed Asset Management Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

Budget Implementation Policy

The budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 2012. This policy became effective from the date of approval and is being utilised to govern the operations of the SCM unit of the municipality.

Cash Management and Investment Policy

The Municipality's Investment Policy aims to ensure that the municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduce time frames to achieve certain benchmarks. Currently the municipality does not have viable investments, due to the fact that it does not have approved revenue enhancement strategies in place. The management is in the process of establishing those strategies (Traffic Unit being one of them) in order to maintain the municipality's financial stability.

Property Rates Policy and Related Sub-Policies.

The municipality's Property Rates and its related policies provide a broad framework within which the Council can determine fair, transparent and affordable charges, in relation to property rates and other services, that can also promote sustainable service delivery. These policies have been approved as a consolidated Property rates policy.

OVERVIEW OF THE ANNUAL BUDGET PROCESS

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the CFO.

The primary aims of the Budget Steering Committee is to ensure:

- ✓ that the process followed to compile the budget complies with legislation and good budget practices;
- ✓ that there is proper alignment between the policy and service delivery priorities set out in the Municipality’s IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- ✓ that the municipality’s revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- ✓ that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

Budget Process Overview

- ✓ In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. September 2012) a time schedule that sets out the process to revise the IDP and prepare the budget.

IDP and Service Delivery and Budget Implementation Plan

- ✓ The municipality’s IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan (SDBIP).

OPERATING REVENUE FRAMEWORK

For Nkandla municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. But in these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty, at the same time, we do not have core sources of funding in exception of government Grants. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipal environment and continued economic development;
- Efficient revenue management, which aims to ensure a reasonable percentage annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to municipal facilities;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the municipality.
- Revenue enhancement strategy

OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Nkandla municipality's 2013/14 Annual Budget and MTREF
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;

The budgeted allocation for employee related costs for the 2013/14 financial year totals R30, 018 million, which equals 26 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 8.05 per cent for the 2013/14 financial year. An annual increase of 8.05 per cent has been included in the two outer years of the MTREF. As part of the planning assumptions and interventions all critical vacancies are included in the budget with the aim of exercising more prioritization to them. Expenditure against overtime and S&T was significantly reduced.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998).